

Press Briefing

The problem with corporations

What's The Problem?

The economic and political power of transnational corporations has grown dramatically since the end of the Second World War.

It could be argued that the world's largest corporations are now more powerful than most governments. If they were listed in an economic league table together with countries, corporations would form 51 of the world's 100 largest economies. This concentrates enormous economic power in boardrooms. Yet corporations are legally accountable to their shareholders, not to the wider public of the people their decisions affect.

There are now 44,000 multi-national companies with 280,000 affiliates. Their number and size, and the speed and ease with which money can be moved around the world, often gives them the power to trade off governments against each other, reducing the ability of states to set economic, social or environmental standards in the public interest. Southern governments in particular often find this economic power overwhelming. For example, mining company BHP is a significant part of Papua New Guinea's economy. The company was challenged by citizens concerned about its operations, but were not supported by the Government. An Australian court found that the PNG government had colluded with the company. Southern governments feel the need to have major corporations invest in their countries to help them develop their economies, but are then discouraged from challenging them.

Large corporations also wield great influence within institutions such as the World Bank, IMF and WTO. International financial and economic institutions have for many years tried to force governments in developing countries to restructure their economies to conform to a "one-size-fits-all" neo-liberal economic model. This has been good for corporations but often very bad indeed for the countries concerned, as they are forced to plunder their natural resources to service debt and secure foreign exchange. This is one of the main drivers, for example, of continued rainforest destruction and export from Indonesia and South America.

Multi-nationals also tend to transport goods further than smaller companies. Just under a third of world trade, for example, is within major corporations such as the car industry which manufactures components in many different locations. This contributes to climate change through transport pollution. Multinationals also provide relatively few jobs. The top 200 multi-nationals have sales equivalent to 26 per cent of global GDP, but employ just 0.74 per cent of the world's workforce.

Who Do They Answer To?

Corporations can be influenced by customers, suppliers and other stakeholders - for example trade unions. But their accountability, and therefore their main priority is to their shareholders for whom they must generate profits and dividends. Governments have the power and resources to enforce public-interest standards. But under the present drive for global free trade, such standards are seen as "*barriers to trade*". For example, the UK Government refuses to require its own departments to purchase only Forest Stewardship Council (FSC) certified timber because such a rule is considered to be against WTO rules. Yet it would have a dramatic impact on the UK timber trade by making it more accountable for its sourcing of material.

Corporations lobby tirelessly to secure their "rights" - they argue that as legal "persons" they are entitled to human rights under the Human Rights Act for example. Major UK port corporation, Associated British Ports, for example, has threatened to take the government to court under the Human Rights Act over the designation of the Humber Estuary under the European Habitats Directive. At the same time many corporations attempt to pass operational costs on to the wider society (for example pollution costs) and to reduce their social commitments (for example by lobbying against environmental standards). The UK Government has responded to the repeated calls of lobby groups such as the CBI for less red tape by establishing two bodies to scale down regulation - the Better Regulation Taskforce under the Cabinet Office and a new initiative for small business in the Department of Trade and Industry (DTI).

Indeed the CBI lobbied the DTI to establish business involvement in the DTI at a senior level. As a result, Secretary of State Patricia Hewitt announced the establishment of a new Strategy Board chaired by her which is to include three representatives from business.

In many countries, this corporate libertarian message has become the dominant view of the political elite. Politicians often benefit from corporate largesse through corruption or political funding and patronage. Exxon was the biggest oil industry contributor to George W. Bush's presidential campaign and his rejection on becoming president of the Kyoto Protocol was widely viewed as a consequence of his party's and his administration's close ties with the oil industry. Tony Blair has become an enthusiastic proponent of free trade, travelling to the developing world in 2001 with a plane-load of executives to drum up interest in a new trade round. It is perhaps not surprising given the unwillingness of major governments to challenge the power of corporations that the mechanisms supposedly securing corporate social responsibility, such as the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and UN Global Compact, are voluntary and have little real impact. In 25 years, only 30 cases have been taken under the OECD Guidelines.

Are They Responsible?

Too many corporations are not, in practice, behaving responsibly. Examples known to Friends of the Earth include:

- Asia Pulp and Paper destroys primary rainforest to produce cheap paper using Barclays and NatWest investment money;
- Premier, the UK oil and gas company, benefits from sudden changes to Pakistan's laws, introduced under a military dictatorship, which allow it to exploit gas from Kirthar National Park;
- Scotts is digging up "protected" peatlands in Britain for compost;
- Exxon lobbies against action to curb climate changing gas emissions;
- Rio Tinto plans to take uranium from the Jabiluka World Heritage Site;
- Sixty per cent of the UK's tropical timber imports are thought to be illegally-sourced, with both the trade and retailers failing to clean up their act.

Too often, governments have failed to properly constrain corporate excess. They turn a blind eye, deny there is a problem or claim it is overstated.

What Does FOE Want?

Of course, businesses matter. They help people meet their needs for material goods and vital services. Many are here for the long term and therefore must play a part in sustainable development. But we

believe the power and influence of big corporations must be balanced by citizens' rights and democratic control.

FOE's agenda is about:

- democracy
- equity
- rights
- standards

The public shares our views. According to a MORI poll published on 11 October, 92 per cent of the public believe that multi-national companies should meet the highest human health, animal welfare and environment standards, wherever they are operating. Fifty eight per cent (71 per cent of broadsheet readers) think that "*what's good for business is not good for most people in developing, poorer countries*". Between 87 and 92 per cent of people think that the government should protect the environment, employment conditions and health - even when this conflicts with the interests of large corporations.

FOE wants governments and international institutions to introduce binding rules that will ensure that corporations meet to the highest standards. We believe the framework for such rules should be established in international law through a corporate accountability and liability convention. Governments are already considering a framework convention on liability and another on environmental rights. With our colleagues in Friends of the Earth International we have proposed the following key steps:

- **Citizens' Rights**
Ensure accountability for corporate decisions by establishing legal rights of redress for citizens or communities adversely affected by corporate activities. Citizens would also have rights to prior consultation, against displacement and for compensation or reparation, and rights over the resources needed to enjoy a healthy and sustainable life, including common property resources such as forests.
- **Corporate Duties**
Place duties on corporations and their directors to take account of social and environmental considerations as well as financial ones.
- **High standards**
Set minimum (but high) environmental, social, labour and human rights standards for corporations, wherever they operate.

What is FOE Doing?

FOE is campaigning about corporate accountability through publicising specific cases, through exposing corporate lobbying and through challenging the investment sector.

FOE International is calling for a convention on corporate accountability. We are seeking a commitment to start international negotiations, in the decisions of the Earth Summit in Johannesburg 2002. British Prime Minister Tony Blair will be attending the Summit.

Nationally, the UK Government is set to introduce a Company Law Bill, possibly in autumn 2002. Positively, the Government plans to make corporations accountable for corruption overseas. FOE is working with MPs and other allies to present our own Corporate Accountability Bill.